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November 15, 2002

ELECTRONIC FILING

Ms Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: WC Docket No. 02-307 Ex Parte # 3 -- ERRATUM

Dear Ms. Dortch:

In the second full paragraph on the second page of the attachment to BellSouth's Ex Parte #2, filed on November 14, 2002, we state: "First, note that the material prices for cable accounts modeled using a bottoms-up approach are lower than those originally filed, reflecting the elimination of the inflation from the labor rates." That sentence should include the language indicated in boldface and should read: "First, note that the material prices fro cable accounts modeled using a bottoms-up approach are lower than those originally filed, reflecting the elimination of inflation from the **material prices and** labor rates." Enclosed is a revised attachment with the additional language presented in boldface so that the reader can easily find it.

In accordance with Section 1.1206, I am filing this notice and the revised electronically and request that you please place them in the record of the proceeding identified above. Thank you.

Sincerely,



Kathleen B. Levitz

Attachment

CC: Richard Lerner
Tamara Preiss
Josh Swift
Christine Newcomb
James Davis-Smith
Sara Kyle

Scott Bergmann
Jeff Dygert
Dick Kwiatkowski
Janice Myles
Luin Fitch
Beth Keating

REVISED ATTACHMENT

In order to determine the impact of inflation on the recurring costs BellSouth filed in Florida, BellSouth has re-run the cost studies eliminating the inflation component of the cost calculation. In other words, the average inflation factors were set to one. This, in essence, put all of the investment at the base year; i.e., at the vintage of the material/contract prices¹.

BellSouth utilized its 1/28/02 compliance filing, which reflected a bottoms-up approach, to determine the adjusted loop costs. Inflation is captured in two models in the bottoms-up run, in the BSTLM and in the BellSouth Cost Calculator. Additionally, inflation is added to BellSouth's costs in the BSTLM in two locations in the bottoms-up version of the model. First, material prices are adjusted to bring the material prices from a historical vintage to the mid-point of the 3-year study period. For example, BellSouth's cable material prices in the Florida UNE studies reflect prices paid during 1999. Since the UNE study is a 2000-2002 study, these material prices were inflated to bring them to the mid-point of the 2000-2002 study period (the period of time during which the resulting UNE rates were expected to be in place). The Material Loading table in BSTLM includes an average inflation factor for each Field Reporting Code ("FRC"). These inflation factors are multiplied by the applicable unit material prices for each type of plant "placed" by the BSTLM.

In addition to the material inflation factors, the bottoms-up BSTLM study calculates BellSouth personnel placing and splicing costs by multiplying placing and splicing times by an hourly labor rate associated with outside plant construction forces. This hourly labor rate used in BellSouth's filed bottoms-up study is a rate inflated to the mid-point of the 2000-2002 study period.

No additional inflation occurs in the BellSouth Cost Calculator for the outside plant accounts since the output coming from the BSTLM for the accounts already includes appropriate inflationary/deflationary impacts. Plant accounts' investments not developed via a bottoms-up approach (e.g., circuit equipment) are produced by the BSTLM at non-inflated levels. Any appropriate inflation or deflation for these "non-bottoms-up" accounts occurs in the BellSouth Cost Calculator.

Thus, to eliminate inflation from the BSTLM calculations, the Inflation factors contained in the Material Loading table were set to one. (In the original filing, this table can be found on the CD-ROM labeled Appendix D, Florida Docket No. 990649-TP; Compliance Filing – Revision 3; BellSouth UNE Cost Studies; 01/28/02 – Documentation\Xappendix\Appendix B\Attachment_REV.xls; Worksheet: Loadings.) Additionally, the labor rate for BellSouth construction employees (splicers and placers) was adjusted to eliminate the 2000-2002 inflation factor. The labor rates can be found in the same excel file as the Material Loading table on the Labor Rates worksheet. The

¹ The majority of the material prices are at the 1999 level, however, some are 1998 vintage. Furthermore, the outside plant contractor billing reflected work done during the 2000 timeframe, the most currently available data at the time of the filing in the 120day cost study.

original input sheets BellSouth filed are attached as Exhibit 1 and the revised input files are attached as Exhibit 2. Since only cable and structure were modeled using the bottoms-up approach, inflation must also be eliminated from the digital loop carrier accounts (257C) and from the switching accounts (377C)² in order to produce a loop with no inflation. Inflation for these accounts is applied in the BellSouth Cost Calculator. BellSouth created a scenario in the BellSouth Cost Calculator that reflected a 1.0 input for inflation for all accounts, i.e., no inflation is considered. Exhibit 3 replicates the data found on the Miscellaneous Factor screen in the BellSouth Cost Calculator and compares the original input and the input with no inflation.

In order to determine the impact of eliminating inflation for elements not filed in the 120-day proceeding, the August 16, 2000 cost study was used. (CD-ROM – Appendix D; Florida Docket No. 990649-TP; Revised Cost Study Filing) This was run through the BellSouth Cost Calculator using the scenario previously described – all inflation factors set to 1.0.

The outputs of the BellSouth Cost Calculator confirm the adjustments made by BellSouth to eliminate inflation. Exhibit 4 contains output sheets for the UNE-P loop (element P.1.1) that displays the material prices, inflation factors, in-plant factors, supporting equipment &/or power loading factors, and the total investment. The first worksheet in Exhibit 4 is the original output as filed by BellSouth. The second worksheet is from the run in which inflation has been eliminated. First, note that the material prices for cable accounts modeled using a bottoms-up approach are lower than those originally filed, reflecting the elimination of the inflation from the **material prices and** labor rates. Second, note that for all accounts the inflation factors are now set at 1, i.e., no inflation/deflation is considered.

Exhibit 5 provides a comparison between the as filed costs, which considered inflation, to those with the inflation impact eliminated for the elements that comprise the UNE-P offering – loop, port, switching (usage), and features. Additionally, since AT&T reportedly made this same analysis for the unbundled 2-wire analog loop (A.1.1) and the unbundled port (B.1.1), Exhibit 5 also includes these elements. In order to estimate the impact of eliminating inflation on the rates established by the FSPC, the percent difference between the as filed costs and the adjusted (non-inflated) costs have been applied against the existing rates and are displayed on Exhibit 6.

² The termination on the main distribution frame (“MDF”) is coded to the 377C account.